



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SENTINEL SECURITY LIFE INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2013

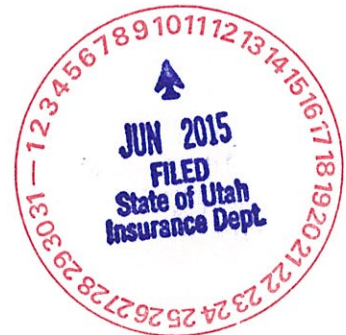


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April 17, 2015

SALUTATION

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2013, has been made of the financial condition and business affairs of:

SENTINEL SECURITY LIFE INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as “the Company” or “Sentinel” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last financial examination of the Company was completed as of December 31, 2009. The current examination is a full scope examination covering the period from January 1, 2010 through December 31, 2013, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and its holding company system. The examination was conducted by representatives of the Utah Insurance Department (“Department”) at the Company’s administrative office in Salt Lake City, Utah, which is the primary location of the Company’s books and records.

Examination Procedures Employed

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company’s corporate governance, identifying and assessing inherent risks within the Company, and evaluating internal controls, policies, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation,

management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

Workpapers of the Company' independent auditor, Larson & Company, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

Status of Prior Examination Findings

Prior examination covered the period from January 1, 2007 to December 31, 2009. The examination report was distributed to the Board of Directors on July 11, 2011. No material outstanding issue from the prior examination deemed necessary for further follow up by the examiners.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Issues discovered during the course of this examination that are not considered to be material weaknesses were presented to management, in the Management Letter, for their consideration.

Items of significance commented on in this report are summarized below:

1. Service and Cost Sharing Agreements

During and subsequent to the period of this examination, the Company operated without an approved service and cost sharing agreements with its affiliates, which is in violation of Statement of Statutory Accounting Principles (SSAP) No. 25, Accounting for and Disclosures about Transactions with Affiliates and other Related Parties, and Utah Code Annotated (U.C.A.) § 31A-16-106(1)(b)(iv).

Management agreed with the finding and indicated appropriate Form D, Prior Notice of a Transaction, will be filed with the Department (TRANSACTIONS AND AGREEMENTS WITH AFFILIATES).

2. Agency Appointment and Termination

The Company did not properly maintain the listing of individual and agency producers' appointment and termination in SIRCON, the Utah state agency licensing program, pursuant to the requirement of Utah Administrative Code (U.A.C.) R590-244-11.

Management agreed with the finding and will put procedures in place to address and prevent this issue in the future (TERRITORY AND PLAN OF OPERATIONS).

SUBSEQUENT EVENTS

The following subsequent events were determined to be significant. These events are also noted in other sections of this examination report.

On March 26, 2014, the Department approved a surplus note between the Company and Ability Insurance Company ("Ability") in the amount of \$10 million. The note was amended on November 21, 2014, to include the additional \$5 million contribution from Ability.

In 2014, the Company established a second wholly owned subsidiary, Secure Administrative Solutions LLC ("SAS"). On October 1, 2014, SAS started providing administrative services for the Company's hospital indemnity and Medicare Supplement products.

COMPANY HISTORY

General

The Company was organized in 1948, under the name Sentinel Mutual Insurance Company. The Company was granted a certificated of authority in July 1948 to conduct a life insurance business as a mutual insurer, by a group of Utah funeral directors for the purpose of providing the public with an insurance product designed to help pay funeral costs at the time of need. Some of the original founders still serve the Company as members of the Board of Directors. The Company's organization was sponsored by the Funeral Directors' and Embalmers' Association of Utah.

In 1954, the articles of incorporation were amended to change the Company to a capital stock insurer, and the name was changed to Sentinel Insurance Company. In 1957, the articles of incorporation were again amended to change the Company's name to its present name of Sentinel Security Life Insurance Company.

On December 5, 2012, the Company amended the articles of incorporation, increasing the common shares authorized from 500,000 to 10,000,000 shares. In addition, the par value of each share was decreased from \$7 per share to \$4 per share. At the time of the amendment the number of shares issued was 359,526.42. The number of outstanding shares entitled to vote was 290,722.65 with 68,803.77 non-voting treasury shares. This amendment was approved by the Department on February 27, 2013. The change affected capital as follows:

BEFORE	Common Capital Stock	2,516,685
	Gross Paid in Surplus	<u>201,229</u>
	Total	2,717,914
AFTER	Common Capital Stock	1,438,104
	Gross Paid in Surplus	<u>1,279,810</u>
	Total	2,717,914

Subsequent to the examination period, on December 10, 2014, the Company amended the articles of incorporation, increasing the par value of each common stock from \$4 per share to \$8 per share. At the time of the amendment the number of shares issued was 359,526.42. The number of outstanding shares entitled to vote was 295,136.99 with 64,389.43 non-voting treasury shares. This amendment was approved by the Department on March 24, 2015. The change affected capital as follows:

BEFORE	Common Capital Stock	1,438,104
	Gross Paid in Surplus	<u>1,279,810</u>
	Total	2,717,914
AFTER	Common Capital Stock	2,876,211
	Gross Paid in Surplus	<u>1,279,810</u>
	Total	4,156,021

Dividends and Capital Contributions

During the examination period the Company paid dividends to its shareholders pursuant to U.C.A. § 31A-16-106(2). Dividends paid during the period were as follows:

Year	Amount
2009	\$468,570
2010	\$467,492
2011	\$466,688
2012	\$466,315
2013	<u>\$464,632</u>
Total:	\$2,333,697

On March 26, 2014, the Department approved a surplus note between the Company and Ability in the amount of \$10 million. The scheduled maturity date of the note is April 1, 2025. The Company will pay interest quarterly each year commencing July 1, 2014 at the rate of 7.5% per annum.

On November 21, 2014, the surplus note was amended to include an additional \$5 million contribution from Ability, bringing the contribution to a total of \$15 million. The scheduled maturity date of the note is now December 1, 2025 with quarterly interest payments at the rate of 7% per annum. The note was approved by the Department on December 16, 2014.

The surplus note contained a conversion feature, which states that Ability shall have the right on any date from and after June 1, 2016 and at any time until this surplus note is fully paid, upon 30 days prior written notice to the Company to convert the principal amount outstanding at the time of such conversion or any portion thereof into Common Shares. The number of Common Shares to be issued upon conversion of the surplus note shall be 1 share for each \$85 of principal amount of the surplus note and shall be subject to Ability filing a Form A or similar required approval by the Utah Insurance Commissioner.

Mergers and Acquisitions

There were no mergers or acquisitions during this examination period.

CORPORATE RECORDS

Minutes Review

The minutes of the meetings of the Board of Directors, committees, and the annual meetings of the stockholder from January 1, 2010, through the completion of fieldwork were reviewed. The minutes reflected the ratification, confirmation, and approval of the transactions and events undertaken by the Board of Directors.

Conflict of Interest

Each year members of the Board of Directors and officers are required to complete and sign a conflict of interest statement disclosing any employment, affiliation, or substantial interest in any other business or enterprise which could conflict with the proper and faithful performance of their duties and responsibilities to the Company. During the period of this examination, signed conflict of interest statements were not obtained from directors and officers. Examiners informed the Company of this oversight and requested that a policy and procedure be put in place to ensure proper signed conflict of interest statements be obtained from all directors and officers.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The Company's bylaws indicated that the number of Directors may not be less than five (5) or more than twenty five (25).

The following persons served as directors of the Company as of December 31, 2013:

Name and Location	Primary Occupation
Thomas W. Bartlett Salt Lake City, Utah	Chairman of the Board Sentinel Security Life Insurance Company
Earl L. Tate Tooele, Utah	President & Chief Executive Officer Sentinel Security Life Insurance Company
Edward M. (Pete) Grimm Salt Lake City, Utah	Secretary Sentinel Security Life Insurance Company
Thomas R. King Salt Lake City, Utah	Attorney King & Burke, P.C.
Alva R. Wing Lehi, Utah	Funeral Director (Retired)
Charles W. Lindquist Ogden, Utah	Funeral Director (Retired)
Richard E. Felt Brigham City, Utah	Educator (Retired)
G. Ward Taylor Salt Lake City, Utah	Funeral Director (Retired)

Subsequent to the examination date, Kenneth King, President and Chief Executive Officer of Ability, was added as a member of the Board of Directors.

Officers

The Company's bylaws provide for officers to consist of President, Vice Presidents, Secretary, and Treasurer.

Officers as of December 31, 2013 were as follows:

Name	Title
Earl L. Tate	President & Chief Executive Officer
G. Daniel Acker	Vice President/Treasurer
Edward M. (Pete) Grimm	Secretary

Committees

The following committee was in place as of December 31, 2013:

Audit Committee	Investment Committee
Charles W. Lindquist	Earl L. Tate
Richard E. Felt	Thomas W. Bartlett
Thomas R. King	Edward M. (Pete) Grimm

Compensation Committee	Nominating Committee
Charles W. Lindquist	Alva R. Wing
Richard E. Felt	Edward M. (Pete) Grimm
G. Ward Taylor	Earl L. Tate

Holding Company

The Company is part of a holding company system as defined in U.C.A. § 31A-16. The following is a summary of the majority ownership:

Earl L. Tate controls 100% of the voting shares of RAVAL Investment Company (“RAVAL”), which owns 22% of Sentinel. Individually Mr. Tate owns an additional 0.52% of the Sentinel’s stock.

RAVAL owns 100% of Tate Mortuary, which owns 0.03% of Sentinel.

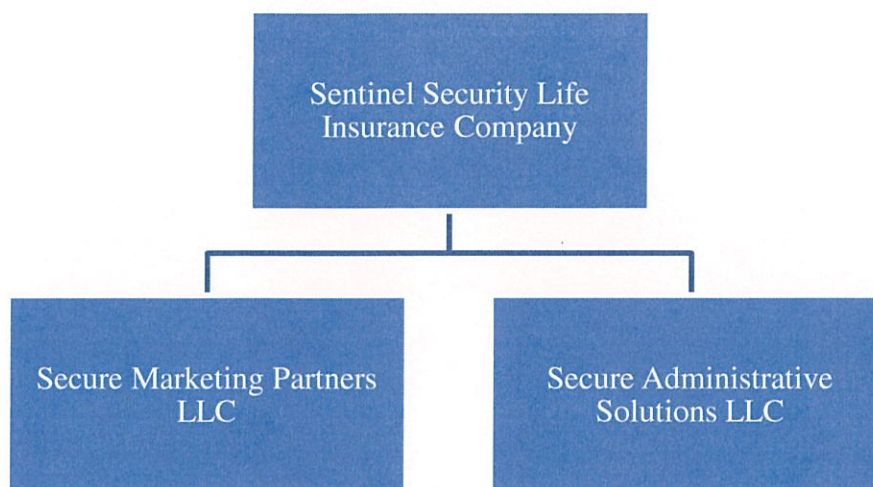
Edward M. (Pete) Grimm controls 100% of the voting shares of Analine Management Company, which owns 19% of Sentinel. Mr. Grimm also owns an additional 0.09% of Sentinel.

In 2013, the Company formed an independent marketing company, Secure Marketing Partners LLC (“SMP”), an independent marketing organization. The Company owns 75% of SMP.

In 2014, the Company established a second wholly owned subsidiary, Secure Administrative Solutions LLC that will operate as a third party administrator, handling the Company's health product administration.

Holding Company Organizational Chart

The organizational chart below reflects the current holding company structure.



Transactions and Agreements with Affiliates

Subsequent to the examination date, SAS started providing administrative services for the Company's hospital indemnity and Medicare Supplement products without an approved service agreement.

Additionally, both SMP and SAS continued to operate without a formal approved cost sharing agreement for the general expenses they shared with the Company. The Company is not in compliance with SSAP 25 and U.C.A. § 31A-16-106(1)(b)(iv).

Management agreed with the finding and indicated appropriate Form D, Prior Notice of a Transaction, will be filed with the Department.

FIDELITY BONDS AND OTHER INSURANCE

The fidelity bond coverage suggested by the NAIC for the Company's size is between \$1,000,000 and \$1,250,000. As of the examination date, the Company had fidelity bond coverage of \$350,000, which did not meet the minimum recommended coverage. Management agreed with the examination's recommendation and has been working with their insurance broker to increase the fidelity bond coverage.

The Company also maintained other types of insurance coverages, such as general liability, commercial umbrella liability, and directors and officers liability.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees are covered by a qualified defined contribution plan. The Company's annual contribution is 10% of the eligible participants' compensation, but only to the extent net profits exceed \$50,000 in the taxable year of contribution. Contributions are made to participants in the same percentage that the individual participant's contribution bears to the total compensation of all participants for the plan year. The contributions become partially vested after two years and fully vested after six years of service. The Company's cost of the plan was \$274,722 for 2013.

The Company also has a deferred compensation plan for certain management employees. In 2013, the Compensation Committee approved an equity incentive plan designed to allow the Company to compensate employee performance through stock compensation. In November 2013, restricted stock awards for employee performance were approved in the amount of \$198,000. The employees receiving the restricted stock awards were compensated with Company treasury stock.

Additionally, the Company provides health, long-term disability, dental, and group-life plans to substantially all of its employees and qualified employee dependents.

TERRITORY AND PLAN OF OPERATION

As of the examination date, the following policies were actively issued:

Sentinel Plan Hospital Advantage

The Company launched this indemnity product in 2012. The product designed specifically to cover out of pocket expenses not covered by Medicare Advantage plans. In 2013, the Company issued 321 policies with \$211,136 in premium. The Company is in discussion with its third party administrator, AmeriLife, Inc., to see what improvements can be made to the product to make it more attractive.

Sentinel Plan Summit Bonus Index

This fixed index single premium annuity was introduced in April of 2013 in only three states (Florida, North Carolina, and Utah). This product has a ten year surrender charge period and market value adjustments. An optional income rider may be added to the base contract that provides a guaranteed roll-up rate with guaranteed annual income for the contract owner. The product netted 1,037 policies with \$86,906,222 in premium in 2013.

Sentinel Plan New Vantage I, II, III

The Company's final expense product is called New Vantage, which includes three plans. The New Vantage I plan is a first day coverage plan that includes 10-pay, 20-pay, paid up at 65, paid-up at 85, and full payment options. The New Vantage II plan is a graded death benefit plan that pays 30% of the face amount if death occurs in year one, 70% of the face amount if death occurs in year two, and 100% of the face amount if death occurs in year three or later. The New Vantage III plan is a modified benefit plan that returns all of the premium paid plus 10% of interest if death occurs in the first two years.

Sentinel Plan Medicare Supplement and Medicare Select

To broaden its business profile and diversify earning sources, the Company began distributing Medicare Supplement and Medicare Select products. In addition to Plan A,B, C, D, F & N in new appointed states, the Company will introduce Plan G in states where the Company feels there is competitive pricing. During the examination period, this product was administered by AmeriLife, Inc. The Company currently administers this product in house by its own subsidiary third party administrator, SAS.

Sentinel Plan Personal Choice Annuity

This fixed annuity product was launched in August of 2011. Personal Choice Annuity is a multi-year guaranteed annuity with three guarantee periods, 5, 7, and 10 years and six optional riders. The six optional riders are: required minimum distribution, preferred 10% free withdrawal, terminal illness/nursing home care, 72 (t) free withdrawal, death benefit feature, and accumulated interest withdrawal. Each optional rider has a charge associated with it that reduces the crediting rate.

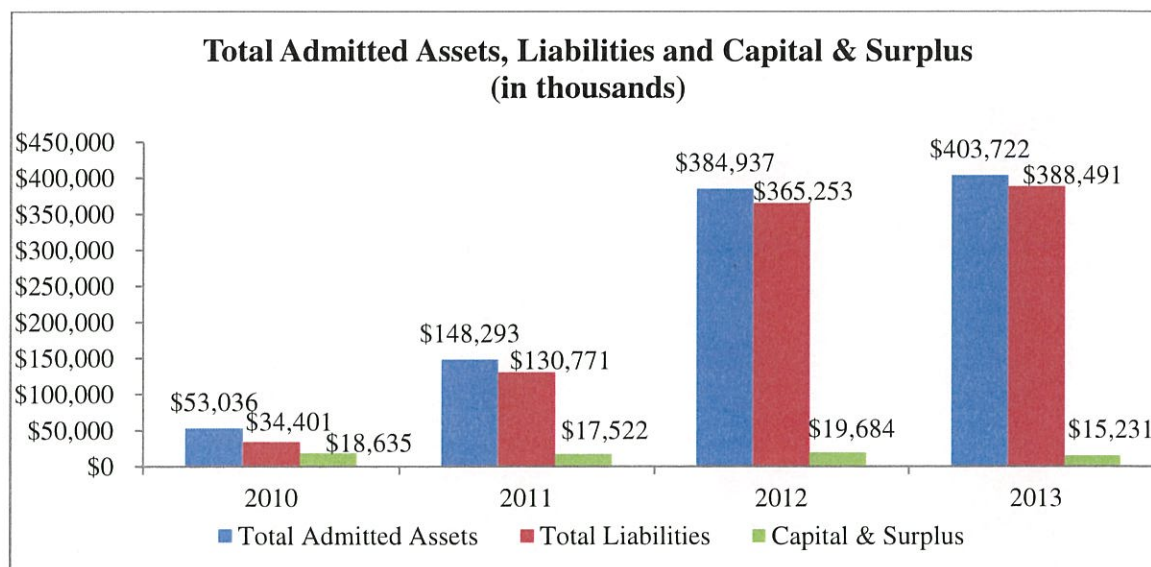
The Company marketed all of its product through individual and firm agencies. During the review of agent appointments and terminations, it was noted the list of active agents that were appointed/terminated during the examination period in the state of Utah provided by the Company did not agree to the Utah state agency licensing program, SIRCON, which contains the current list of the agents appointed/terminated as submitted by the Company.

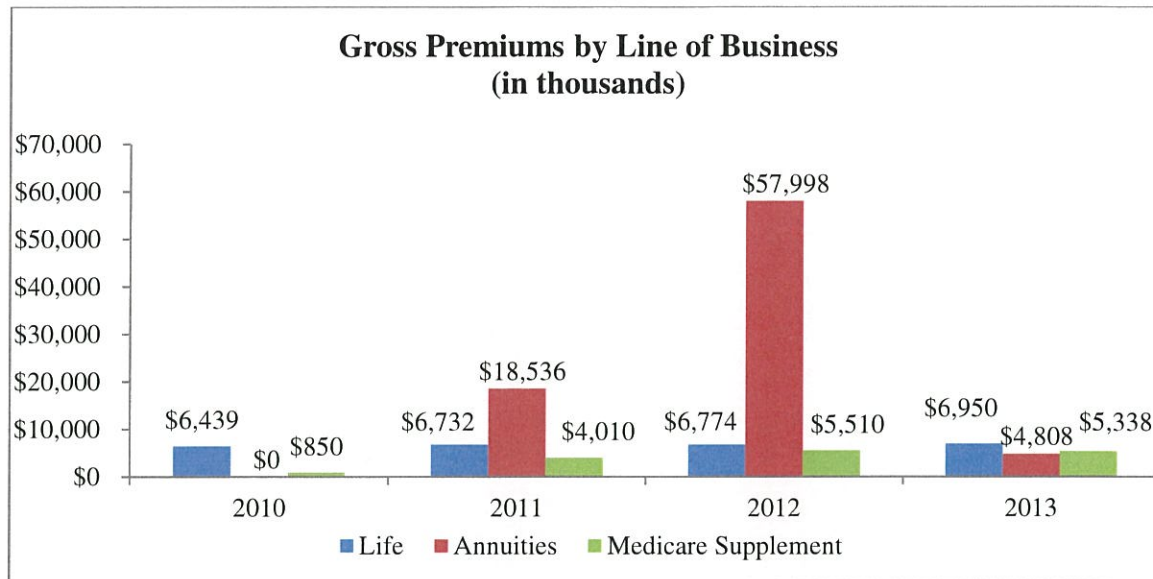
As of December 31, 2013, the Company was licensed in the following 27 states:

Arizona	Idaho	Nebraska	Pennsylvania
Arkansas	Illinois	Nevada	South Dakota
California	Iowa	New Mexico	Texas
Colorado	Kansas	North Carolina	Utah
Florida	Louisiana	North Dakota	Washington
Georgia	Minnesota	Oklahoma	Wyoming
Hawaii	Montana	Oregon	

GROWTH OF COMPANY

To further diversify its earning sources, the Company entered the fixed annuity market on August 1, 2011. Sales greatly exceeded expectations in 2012, substantially increased the company's assets and corresponding product's liabilities, creating a strain on surplus. In 2013, Company intentionally curbed annuity sales to ease the strain on surplus. See following graphs.





MORTALITY AND LOSS EXPERIENCE

The Asset Adequacy Memorandum uses cash flow testing (and gross premium valuation for Medicare Supplement) to help assess reserve adequacy. The process employs actuarial assumptions (including mortality and lapse) in building the projections. Assumptions used in the projections represent estimates of future experience based on a combination of Company-specific (when available) and industry experience.

The base lapse assumptions reflect the assumptions used for internal analysis and pricing and are consistent with recent experience for the modeled plans. Since the Company has somewhat limited experience data for selecting base lapse rates, these assumptions were sensitivity tested. The lapse rates for annuity products are dynamic in that they vary based on the relationship of the credited rate to the assumed competitor rate. The total lapse rates including dynamic adjustments are believed to be conservative. These lapse rates are in line with recent experience. There is a minimum floor on the overall lapse rate. The mortality assumptions were based on a review of product group specific claim experience over the last three years. Exam actuary reviewed recent mortality experience studies for reasonableness as well as requested follow up on annuity lapses to determine reasonableness.

Sensitivity to changes in mortality are more pronounced than changes to lapse. However the sensitivity to increases in mortality are moderate, and current surplus levels are adequate.

REINSURANCE

Assumed

The Company did not have any assumed reinsurance during this examination period.

Ceded

The following ceded reinsurance agreements were in place as of the examination date:

Optimum Re Insurance Company - Final Expense

Effective May 1, 2010, the Company reinsured its life insurance product with Optimum Re Insurance Company ("Optimum Re"), which provides automatic term life up to 85 years old. The Company retains 50% of the risk up to a maximum of \$75,000 per life. Optimum Re on standard rated lives assumes a maximum of \$35,000 in excess of the Company's retention. Substandard risks may be submitted and reinsured on a facultative basis only. The maximum Optimum Re will accept on a facultative basis under this agreement is \$100,000 per life. For 2013, premiums ceded under this agreement totaled approximately \$2 million.

Mutual of Omaha Insurance Company - Medicare Supplement

Effective January 1, 2010, the Company executed an agreement with Mutual of Omaha Insurance Company ("Mutual of Omaha") to reinsure the majority of its Medicare Supplement business. In an effort to mitigate the overall exposure and anticipated expense strain associated with the Medicare Supplement business, the Company cedes 90% of its new covered business as defined in the agreement to Mutual of Omaha. This agreement was amended during the period under examination several times to include new policy forms sold, and to revise the associated fee and allowance structure. For 2013, premiums ceded under this agreement totaled approximately \$47 million.

Mutual of Omaha Insurance Company - Hospital Indemnity

Effective October 1, 2012, the Company executed an agreement with Mutual of Omaha to reinsure its hospital indemnity product. The Company was to cede 70% of its new business to Mutual of Omaha, however due to lack of sales the agreement was rescinded on December 31, 2013. The rescission was effective back to the execution date of October 1, 2012.

Athene Life Re Ltd- Fixed Annuities

Effective October 1, 2011, the Company entered into a coinsurance agreement with Athene Life Re Ltd (“Athene”), a reinsurance company organized under the laws of Bermuda. The Company cedes an 80% quota share of the covered products as defined in the agreement, written by the Company on or following August 1, 2011 through the date the agreement is terminated. The Company retains at 20% of the liabilities with respect to the reinsured policies. The agreement was terminated on September 5, 2012. The Company continues to report the ceded portion of the reinsured contracts under funds held under reinsurance treaties with unauthorized reinsurers until the end of the applicable guaranteed period. As of December 31, 2013 funds held under reinsurance treaties related to this agreement totaled \$252 million.

Guggenheim Life and Annuity Company- Indexed and Fixed Annuities

Effective September 6, 2012, the Company entered into a coinsurance agreement with Guggenheim Life and Annuity Company (“Guggenheim”). The Company cedes and the reinsurer accepts by reinsurance 80% quota share of the fixed annuity policies covered by the agreement from and after the effective date.

Effective September 6, 2012, the Company entered into a coinsurance agreement with Guggenheim. The Company cedes and the reinsurer accepts by reinsurance 100% of the fixed indexed annuity policies covered by the agreement from and after the effective date.

Subsequent Event:

Ability Insurance Company- Indexed Annuities

Effective July 1, 2014, the Company entered into a agreement with Ability to reinsure its fixed annuity policies. This agreement was executed to replace the existing agreement with Guggenheim. Under this agreement the Company cedes and the reinsurer accepts by reinsurance 70% quota share of the fixed annuity policies covered by the agreement from and after the effective date.

ACCOUNTS AND RECORDS

The Company's accounting systems were maintained on a local area network. The basic accounting records and supporting documentation provide a verifiable audit trail.

Larson & Company, An independent certified public accounting firm, audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2010 through 2013 contained unqualified opinions and were made available for the examiners' use.

An Information Technology (IT) Specialist performed a review of the Company's IT system controls for purposes of reliance by the examiners. The IT Specialist prepared a separate assessment report, which was incorporated into the examination workpapers.

STATUTORY DEPOSITS

U.C.A. § 31A-5-211(2)(a) requires the Company to maintain minimum capital requirement of \$400,00. As of the examination date, the Company's statutory deposit adequately met that requirement. The Company also maintained deposits with other state insurance regulators as listed below.

State	Description	Fair Value	Book Value
Utah	United States Treasury Note	\$108,844	\$99,824
	Progressive Corp Ohio	300,385	248,517
	Wal-Mart Stores Inc.	295,980	245,568
	U.S. Treasury Bond	843,710	703,515
	Merrill Lynch & Co	231,046	209,513
Subtotal Utah:		1,779,965	1,506,937
Georgia	Wayne Cnty MI	96,978	112,880
New Mexico	Wal-Mart Stores Inc.	378,854	315,856
North Carolina	Charlotte NC Wtr & Swr	631,524	610,771
Subtotal all other States:		1,107,356	1,039,507
Total:		\$2,887,321	\$2,546,444

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

SENTINEL SECURTY LIFE INSURANCE COMPANY

ASSETS

as of December 31, 2013

	Net Admitted Assets
Bonds	\$ 367,191,498
Preferred stocks	6,907,321
Common stocks	23,877
Mortgage loans	1,628,444
Properties occupied by the company	5,190,950
Properties held for sale	411,563
Cash and short-term investments	13,262,418
Contract loans	1,324,839
Other invested assets	83,911
Receivables for securities	28,545
Subtotals, cash and invested assets	396,267,366
Investment income due and accrued	1,242,878
Uncollected premiums and agents' balances	26,313
Deferred premiums and agents' balances and installments- booked but deferred and not yet due	2,910,524
Amounts recoverable from reinsurers	211,366
Current federal and foreign income tax recoverable	286,500
Net deferred tax asset	2,338,651
Guaranty funds receivable or on deposit	40,998
Electronic data processing equipment and software	113,368
Health care and other amounts receivable	283,536
Total assets	\$ 403,721,509

SENTINEL SECURITY LIFE INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2013

Liabilities

Aggregate reserve for life contracts	\$ 111,931,278
Aggregate reserve for accident and health contracts	161,052
Liability for deposit-type contracts	8,245,641
Contract claims-life	711,047
Contract claims-accident and health	517,560
Provision for policyholders' dividends and coupons payable in following calendar year- estimated amounts:	
Dividends apportioned for payment	20,000
Coupons and similar benefits	700
Premiums and annuity considerations received in advance	49,906
Interest maintenance reserve (IMR)	1,109,723
Commissions to agents due or accrued	144,824
General expenses due or accrued	924,904
Taxes, licenses and fees due or accrued, excl. federal income tax	59,882
Unearned investment income	32,065
Amounts withheld or retained by company as agent or trustee	382,998
Remittances and items not allocated	638,487
Miscellaneous liabilities:	
Asset valuation reserve (AVR)	2,494,855
Funds held under reinsurance treaties with unauthorized and-certified reinsurers	252,282,725
Funds held under coinsurance	8,783,157
Total liabilities	\$ 388,490,804

Capital and Surplus

Common capital stock	\$ 1,438,104
Gross paid in and contributed surplus	1,279,810
Unassigned funds (surplus)	13,770,562
Less treasury stock, at cost:	1,257,771
Total capital and surplus	\$ 15,230,705
Total liabilities, capital and surplus	\$ 403,721,509

SENTINEL SECURITY LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the fiscal year ended December 31, 2013

Premiums and annuity considerations for life and A&H contracts	\$ 17,097,388
Net investment income	5,830,409
Amortization of Interest Maintenance Reserve (IMR)	188,966
Commissions and expense allowances on reinsurance ceded	24,803,247
Charges and fees for deposit-type contracts	2,140
Aggregate write-ins for miscellaneous income	8,942
Total revenues	\$ 47,931,092
Death benefits	3,108,673
Matured endowments	83,229
Annuity benefits	1,181,707
Disability benefits and benefits under A&H contracts	4,063,680
Coupons, guaranteed annual pure endowments and similar benefits	720
Surrender benefits and withdrawals for life contracts	1,835,581
Interest and adjustments on contract or deposit-type contract funds	(209,571)
Increase in aggregate reserves for life and A&H contracts	6,531,096
Total benefits and reserves	\$ 16,595,115
Commissions on premiums, annuities, and deposit-type contract funds	23,412,553
General insurance expenses	10,419,424
Insurance taxes, licenses and fees, excluding federal income taxes	864,515
Increase in loading on deferred and uncollected premiums	158,928
Total expenses	\$ 51,450,535
Net gain from operations before dividends and federal income taxes	(3,519,443)
Dividends to policyholders	20,985
Net gain from operations after dividends and before federal income taxes	(3,540,428)
Federal and foreign income taxes incurred	(601,872)
Net gain from operations after dividends and taxes & before capital gains	(2,938,556)
Net realized capital gains (losses)	129,989
Net income (loss)	\$ (2,808,567)

SENTINEL SECURITY LIFE INSUARNCCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2010 through 2013

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus prior reporting year	\$ <u>20,393,274</u>	\$ <u>18,635,461</u>	\$ <u>17,521,799</u>	\$ <u>19,683,945</u>
Net income (loss)	470,828	216,947	(34,607)	(2,808,567)
Change in net unrealized capital gains (losses)	832,141	179,070	78,289	184,596
Change in net deferred income tax	524,886	479,912	(169,478)	1,517,448
Change in non-admitted assets	(2,298,260)	(1,598,836)	3,087,402	(2,471,194)
Change in reserve on account of change in valuation basis	(104,053)	0	0	0
Change in asset valuation reserve	(699,507)	107,312	(385,428)	(697,953)
Change in treasury stock	(16,459)	(33,714)	(42,348)	158,444
Cumulative effect of changes in accounting principles	0	0	94,623	109,210
Dividends to stockholders	(467,492)	(466,688)	(466,315)	(464,632)
Aggregate write-ins for gains & losses in surplus	<u>3</u>	<u>2,335</u>	<u>8</u>	<u>19,408</u>
Net change in capital and surplus	\$ <u>(1,757,813)</u>	\$ <u>(1,113,662)</u>	<u>2,162,146</u>	<u>(4,453,240)</u>
Capital and surplus end of reporting year	<u>18,635,461</u>	\$ <u>17,521,799</u>	\$ <u>19,683,945</u>	\$ <u>15,230,705</u>

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus

\$15,230,705

The Company's capital and surplus was determined to be the same as that reported in the Company's annual statement as of December 31, 2013. The capital and surplus significantly exceeded the authorized control level risk-based capital. No adjustments were determined necessary for examination purposes.

ACKNOWLEDGEMENT

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Respectfully Submitted,



Malis Rasmussen, CFE, SPIR
Examiner-in-Charge
Utah Insurance Department